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XR PET 6 LIBYA

Department of State **TELEGRAM**

EXCISE 361

CONFIDENTIAL 919

PAGE 01 TRIPOL 02307 241400Z

54-42
ACTION E-04

INFO OCT-01 SS-20 AF-05 OEP-01 L-02 INR-07 NSC-10 NSCE-00
CIAE-00 NSAE-00 TRSY-06 INT-01 COM-02 NEA-08 EUR-12
ARA-11 RSC-01 RSR-01 /092 W
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P R 241042Z SEP 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 6931
INFO USINT ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY BENGHAZI
AMEMBASSY BONN
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY ROME
RUQVAN/AMEMBASSY TEHRAN 180
AMEMBASSY THE HAGUE
USMISSION EC BRUSSELS
USMISSION NATO
USMISSION/OECD PARIS

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY CJ DATE 8/7/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 2307

LIMDIS

DEPT PASS CAIRO

SUBJ: CONSEQUENCES OF POSTED PRICE SETTLEMENTS

(2) REF: STATE 155377, TRIPOLI 2294 (NOTAL)

1. OASIS: IN FURTHER DISCUSSION WITH THREE OF OASIS' OWNERS,

DECLASSIFIED 324

DECLASSIFIED

Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 02 TRIPOL 02307 241400Z

EMB HAS CLARIFIED SEVERAL POINTS REGARDING POSTED PRICE SETTLEMENT.

A) RETROACTIVITY: AGREEMENT, WHICH EMBOFF READ, EXPLICITLY PROVIDES FOR RETROACTIVE APPLICATION OF 30 CENT PRICE INCREASE TO JAN 1, 1965, FOR WHICH 4 PER CENT ADDITION TO TAX RATE FOR LIFE OF CONCESSION IS SPECIFIED AS FULL SATISFACTION OF LARG'S CLAIM. LARG HAS ANNOUNCED THAT CLAIM RESULTING FROM PRICE RETROACTIVITY IS DOLS 243 MILLION -- FIGURE OASIS' OWNERS CONFIRM LARG USED IN CALCULATING TAX INCREASE. HOWEVER, 4 PER CENT ADDITION TO INCOME TAX IS INTENDED TO RECOVER DOLS 243 MILLION OVER 10 YEARS -- NOT 5 YEARS AS WE FIRST WERE TOLD BY AMERADA-HESS -- BASED UPON OASIS' CURRENT PRODUCTION ALLOWABLE OF ABOUT 900,000 B/D. FROM DETAILED ACCOUNT OF NEGOTIATIONS WE NOW HAVE BEEN GIVEN, IT APPEARS INITIAL CONFUSION OVER PERIOD FOR RECOVERY OF RETROACTIVITY PAYMENT AROSE FROM VARIOUS FORMULAE PROPOSED DURING NEGOTIATIONS, WITH 10-YEAR RECOVERY THE FINAL RESULT.

B) PRODUCTION LEVEL: AFTER PRICE SETTLEMENT, OASIS WAS INFORMED SEPT 23 THAT IT MAY PRODUCE SHUT-IN WELLS, FOR WHICH NO ALLOWABLES HAVE BEEN ASSIGNED, AT RATES SUFFICIENT TO MAINTAIN PRODUCTION AT GROSS ALLOWABLE OF 901,000 B/D. OASIS PRODUCTION RECENTLY HAD AVERAGED ABOUT 880,000 B/D BECAUSE MINISTRY HAD RIGIDLY ENFORCED ALLOWABLE FOR EACH WELL-RESULTING IN SHORTFALL WHEN WELLS SHUT-IN FOR TECHNICAL REASONS OR WELL PRODUCTIVITY DECLINED. WHILE TECHNICAL REVIEW OF OASIS' PRODUCTION ALLOWABLE, PROMISED DURING NEGOTIATIONS, HAS NOT BEGUN, OWNERS' REPS ARE PESSIMISTIC THAT IT WILL RESULT IN SIGNIFICANT INCREASE. LARG RECENTLY HAS ADOPTED LINE THAT ADDITIONAL PRODUCTION IS DESIRABLE BUT SHOULD COME FROM NEW DISCOVERIES.

C) SHELL: MEETING WITH LARG REPS, HEADED BY DEPPRIMIN JALLUD, AT WHICH SHELL GAVE ITS REPLY TO DEMAND THAT IT ACCEPT SAME SETTLEMENT AS OTHER OASIS OWNERS, HELD SEPT 22 AS SCHEDULED. SHELL (ONLY MAJOR COMPANY IN OASIS GROUP) OFFERED TO ACCEPT LARG'S TERMS -- EXCEPT FOR RETROACTIVITY WHICH IT REJECTED ENTIRELY. JALLUD INFORMED SHELL THAT ITS "PRODUCTION" WOULD BE STOPPED IMMEDIATELY--BRINGING TEN MINUTE MEETING TO ABRUPT CLOSE. TO IMPLEMENT JALLUD'S DECISION, MINISTRY PETROLEUM INFORMED OASIS SEPT 23 THAT CRUDE OIL FOR WHICH SHELL WAS CONSIGNOR (SHELL "OWNED" CRUDE) COULD NOT BE SHIPPED.

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Department of State **TELEGRAM**

CONFIDENTIAL

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2. OCCIDENTAL: OXY'S PRODUCTION RECENTLY HAS FALLEN AS LOW AS 300,000 B/D BECAUSE SOME CUSTOMERS ARE EXERCISING THEIR CONTRACTUAL RIGHT TO 30 DAYS IN WHICH TO DECIDE UPON ACCEPTING PRICE INCREASES TRIGGERED IN CRUDE OIL SALES CONTRACTS BY OXY SETTLEMENT. SINCE CRUDE IS ALLOCATED TO PURCHASERS UNDER PRESENT CONTRACTS, OXY CANNOT SELL ON SPOT MARKET AND HAS BEEN FORCED TO CUT PRODUCTION NOW THAT ITS STORAGE IS FULL. OXY HOPES SETTLEMENT BY THREE OASIS OWNERS AND STOPPAGE OF SHELL WILL INDUCE BUYERS TO ACCEPT ITS TERMS.

3. OTHER INDEPENDENTS: FOUR INDEPENDENTS, WHICH HAVE BEEN GIVEN SEPT 26 DEADLINE TO SIGN COMPARABLE PRICE AGREEMENT, ALSO HAVE BEEN GIVEN OPTION TO PAY RETROACTIVITY IN CASH INSTALLMENTS OR BY APPLYING HIGHER TAX RATE TO FUTURE PRODUCTION. TAX RATE WOULD BE FIXED TO RETURN PAYMENT FOR PRICE RETROACTIVITY OVER FIVE YEARS. AGAIN, MEANS FOR ACCOMMODATING RETROACTIVITY TO JAN 1965 APPEAR TO BE ONLY ELEMENT OF OXY-TYPE SETTLEMENT LARG IS WILLING TO DISCUSS. WE ANTICIPATE THESE INDEPENDENTS WILL BE UNDER PRESSURE FROM THEIR MAJOR OIL COMPANY PARTNERS TO REJECT DEMAND FOR RETROACTIVITY -- IF NOT 30 CENT PRICE INCREASE AS WELL.

4. ALGERIA: WE NOW UNDERSTAND FROM OASIS THAT ALGERIANS ARE ASKING FOR TWO CENT PRICE ESCALATION PER DEGREE OF GRAVITY ABOVE 40 DEGREES, WHICH, IN ADDITION TO FINANCIAL ADVANTAGE TO LIBYA, HELPS TO EXPLAIN LARG'S INSISTENCE UPON CHANGE IN GRAVITY FORMULA. RETROACTIVITY PRINCIPLE, TOO, IS OF INTEREST TO ALGERIANS IN THEIR EFFORT TO BACK-DATE PRICE TO JAN 1970, ALTHOUGH POLITICAL VALUE TO LARG OF VIRTUAL CONFESSION BY COMPANIES TO SETTING LOW PRICES IS OF MUCH GREATER IMPORTANCE THAN COMMON CAUSE WITH ALGERIA. PRICE, TAX AND GRAVITY ALLOWANCE ELEMENTS OF SETTLEMENTS IN LIBYA WOULD SEEM TO SERVE ALGERIA WELL IN ITS ENCOUNTER WITH FRENCH COMPANIES. CLEARLY, LIBYA AND ALGERIA HAVE EMBARKED ON COORDINATED APPROACH TO ESTABLISH "NORTH AFRICAN" PATTERN FOR OIL TERMS DISTINCT FROM THOSE APPLIED IN MIDDLE EAST.

DECLASSIFIED

DECLASSIFIED

Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 04 TRIPOL 02307 241400Z

5. PERSIAN GULF: WE AGREE WITH DEPT THAT IF LARG'S TERMS ARE ACCEPTED BY MAJORS IMPACT OF SETTLEMENT WILL SPREAD -- CERTAINLY TO GULF. HOWEVER, WE BELIEVE APPLICABILITY OF TAX RATE INCREASE OUTSIDE LIBYA IS QUESTIONABLE. RATES NEGOTIATED AND PROPOSED BY LARG VARY ACCORDING TO AMOUNT DUE ON PAST PRODUCTION -- AND LINK BETWEEN TAX RATE INCREASES AND RETROACTIVITY IS EXPLICITLY STATED IN AGREEMENTS. MIDDLE EAST PRODUCERS WOULD SEEM TO HAVE NO CASE FOR RETROACTIVITY AND, THEREFORE, NO BASIS FOR CLAIMING EQUAL TREATMENT ON TAX RATE. HOWEVER, POSTED PRICE LEVEL AND FORMULA FOR GRAVITY ADJUSTMENT SEEM CERTAIN TO BE ISSUES RAISED BY OTHER PRODUCERS, IF LIBYANS ARE SUCCESSFUL WITH MAJORS. GP-4
PALMER

NOTE: NOT PASSED CAIRO BY OC/T.

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